

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

RTO/ISO Credit Principles and Practices)	Docket No. AD21-6-000
)	
Request for Technical Conference and Petition for Rulemaking)	Docket No. AD20-6-000
)	

**PREPARED REMARKS OF MELISSA BROWN
ON BEHALF OF THE
MIDCONTINENT INDEPENDENT SYSTEM OPERATOR, INC.**

Panel 3: Internal Resources and Expertise within RTOs/ISOs

My name is Melissa Brown, and I am the Senior Vice President and Chief Financial Officer of the Midcontinent Independent System Operator, or MISO. As noted in the second panel, MISO is proud to operate an energy market with approximately \$27 billion in annual gross market energy transactions taking place over a geographic territory of 15 states. MISO is pleased to participate in this panel to share the people, process, and technology we use at MISO, and how they reflect, in substance (if not always in name or exact form), industry best practices to protect our stakeholders and their credit while balancing the concurrent goals of participation and liquidity. Also, at the outset, I want to clarify that because we are at an RTO credit conference, “risk” in my remarks is synonymous with “credit risk,” rather than other types of risk such as operational, reputational, regulatory, etc.

Background

In the earlier panel, I focused on the root causes of market defaults in the Commission’s jurisdictional markets. Perhaps counterintuitively, I started with power system reliability as the most fundamental way to protect market stability and avoid market defaults. A robust power system promotes price certainty and removes risk, whereas an unduly stressed system, as we have seen just a week ago, causes tremendous price uncertainty and unreasonable credit risks, to say nothing of the underlying human suffering and potential loss to property. MISO’s vision is to be “The most reliable, value-creating RTO.” Reliability precedes value creation in our vision for a reason. Lack of reliability can result in value destruction if the electric industry fails in its core mission of keeping the lights on.

Market design comes next, with appropriately aligned incentives to make sure we benefit from the discipline, efficiency and adequate electricity supply a market structure supports, without jeopardizing the underlying value of the power grid. Enhancing market designs and the backbone of the transmission system are both key elements of the MISO Reliability Imperative effort.

The Commission's overall mission, Economically Efficient, Safe, Reliable and Secure Energy for Consumers is a mirror image of MISO's vision of reliability and value creation. Credit practices must always be an enabler of these two fundamental priorities. Credit policies and credit management structures serve as another layer of protection for market participants and is a component of the first part of the Commission's overall mission.

Credit practices should be integrated with the markets they complement. As MISO's markets have grown, our credit policies and protections have grown with them, in close consultation with our regulators, Independent Market Monitor (IMM), our Market Participants (MPs), and other stakeholders. Credit practices are best when they are sensitive to and are interwoven with the market design. They should also allow a level of discretion for fluid credit situations.

MISO Credit Organizational Principals

At its core, MISO's credit organization is foundationally built on people, process, and technology, each of which has been tested and refined since MISO began its first market in April of 2005. These components cover a wide range of attributes, some of which can overlap and are intended to support durable and repeatable credit practices. To be brief we are keeping our principals focused on four high level items: 1) appropriately experienced and trained people; 2) active monitoring and oversight; 3) timely action to address any risks; and 4) open communication with appropriate escalation and responses.

MISO's believes credit risk management begins with appropriately trained and experienced staff. Credit is more an art than a science, perhaps a craft. Put simply there is no substitute for people who are knowledgeable about credit and sensitive to developing risks. On my team, I have a Director with 20 years of experience in credit risk analysis and management in the energy industry, a manager with 35 years of credit and risk management experience with 20 years of that in energy, and 4 analysts with an average of 13 years' experience. I myself have wide credit experience as both a market participant as well as an RTO managing risk in my 30 years in the energy industry. Though length of time alone is not enough, the longevity of our staff demonstrates expertise, knowledge and judgment of credit and markets which support effective execution of credit practices. No one arrangement of boxes is a substitute for appropriately skilled people.

MISO's monitoring and oversight of credit include well tested processes along with a compliance driven culture which includes continual evaluation and improvements along with internal audits. MISO leverages our internal expertise along with data intelligence gathered from across the organization. This allows us to oversee and respond quickly to any emerging credit concerns or risks. Finally, MISO's open communication includes prompt escalation from the credit analysts all the way through executive management and our Board of Directors.

MISO believes all RTOs should have discretion and authority to respond to extreme price volatility. The very infrequency and unpredictability of such events means a single standard or threshold is unlikely to prevent a default if the markets and price swings are anomalous enough. The best solution MISO has found to address these situations is to set up the rules for the center of the bell curve and have discretion and authority to act swiftly, subject to review, if extreme price volatility arises at the tails.

Know Your Customer Principles

To facilitate a stable market RTOs must have visibility into MPs to ensure they also have appropriate people, process, and technology. MPs should be vetted and monitored to ensure not only that they are complying with all Tariff requirements but also have: 1) proper training; 2) risk management; 3) operational capabilities; 4) adequate capitalization; and 5) that an MP meets the CFTC's Appropriate Person requirements. One area MISO is considering discussing with MPs is the potential for expanding information disclosed by MPs to include participation in other RTO markets. Communication among RTO staff and between RTO staff and MPs is critical.

Information Sharing

Credit practice information sharing already occurs among RTOs on a monthly basis including best practices, potential improvements and lessons learned, all without jeopardizing any MP's confidentiality. Beyond this, the fundamental question is if information sharing will substantially lower the potential of future market defaults. MISO is unclear whether knowing credit information in other RTOs in isolation is beneficial. Credit is inexorably linked to market activity. Knowing one without the other would give little actionable data.

Information sharing regarding individual MPs raises practical confidentiality and cost concerns. Under MISO's current Tariff structure information sharing regarding MPs would violate confidentiality provisions without getting explicit permission first. Information sharing could trigger additional costs for RTOs. If all RTOs possessed all other RTOs credit information, staff and potentially system changes would be needed to process and accommodate the additional information. Cost increases would need to be balanced with the benefits provided, such as preventing future market defaults. MISO has experienced only a few defaults since its market start¹ all with very little financial impact. It would be hard to justify to stakeholders that a significant additional cost is warranted without clear, compelling benefits outlined.

If credit information were to be shared, it would likely be better shared in a central clearinghouse, perhaps maintained by the Commission or some entity common to each RTO. And if such sharing were to occur, careful thought about the protocols, standards, or means of sharing that information would be critical to see if the effort benefits the RTOs and their stakeholders.

Conclusion

In closing, as you consider lessons learned from this conference, I would encourage you to frame them in the context of the Commission's larger mission statement and goal: Economically Efficient, Safe, Reliable and Secure Energy for Consumers. Credit is a portion of this mission, but credit policies within the Commission's jurisdiction are built on top of a very specific and unique electrical topology as well as RTO and non-RTO territories, all with different regions, states, markets, products, and stakeholders. In addition, market activity is very fluid, changing on a minute-by-minute basis, requiring credit to also be fluid to ensure market stability. The structure of any credit policies and the manner in which they are implemented must take these fundamental underpinnings into account.

¹ MISO's largest market default was less than \$1,000 for the first 15 years of market operations. In February of 2021, MISO incurred two additional potential defaults of \$112,046 and \$15,563 which are still pending final resolution.

The Commission should encourage the RTOs to continue robust collaboration to identify best practices and continue to encourage accountability among the RTO management with active stakeholder engagement. To the extent a stakeholder finds that the stakeholder process is not resulting in needed reforms, they have an opportunity to raise the issue to the Commission. It is MISO's experience that responsibility for credit policies are best managed through individual RTO processes rather than standardized rules that potentially shift the responsibility for effective credit practices from the RTOs themselves to generic Commission rulemakings.

Thank you for your time and I look forward to the rest of the panelists and the conference.

Respectfully submitted,

/s/ *Melissa Brown*

Melissa Brown

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